



Issue Brief

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Tax Modernization Choices for Florida

Reforming the Tax Structure Could Produce Revenue to Meet Needs

Background

Modernizing Florida's tax structure would (1) close the state's budget gap, (2) prevent the most severe cuts in essential services like education and health care, (3) increase fairness, and (4) fix the state's long-term structural budget deficit.

Florida's tax system is antiquated, unfair, and inadequate to meet the needs of the nation's fourth-largest state:

- The state's revenue base is unbalanced, depending more heavily on the sales tax than any other state. The purchases that require payment of the sales tax are shrinking, while at the same time more than 240 exemptions are carried forward without review each year and more exemptions are considered for enactment almost every year. Current exemptions add up to \$10.3 billion of potential sales tax revenue each year.
- While the legislature increases the number of exemptions, it has not expanded the base of taxation to include services, the fastest-growing area of consumption. Spending areas that didn't even exist when Florida's sales tax was enacted in 1949 remain untaxed.
- Even purchases that should be taxed are increasingly escaping taxation because of Internet transactions, which remain untaxed.
- Corporate income tax collections are declining as a share of Florida's total tax collections as more and more exemptions are enacted, often in the name of economic development, and because of clever corporate tax planning by multistate corporations.
- Florida eliminated the intangibles tax paid almost entirely by the wealthy in the last decade and the Florida estate tax was ended by congressional action. The end of these wealth taxes now costs the state about \$2 billion annually, requiring the less affluent to pay a larger share of the cost of providing state services.

Meanwhile, even after several years of damaging budget cuts, the governor and legislature promise additional reductions in services in order to balance the state budget. But they have stated they will not

consider any tax reform actions in 2011 that would result in increased revenue (even though they imposed \$2 billion in annual tax increases in 2009, paid disproportionately by low- and moderate-income Floridians).

By acting to implement tax modernization proposals considered in Florida for years and sometimes decades, **the state could raise more than \$5 billion each year to pay for services** needed for a decent quality of life: good schools and colleges, public safety and the judicial system, health care for poor and disabled Floridians, and conservation of the state’s natural attractions.

Legislators Have Choices

The following represent examples of changes to the state’s tax system that would broaden the tax base to make it more fair and to produce enough revenue for services depended upon by millions of Floridians. Elected officials have the choice of enacting any or all of these, as well as other modernization proposals discussed for years, instead of relying on more service cuts to balance the budget.

1. Close Loopholes in the Corporate Income Tax¹

• Require combined reporting of all domestic corporations to prevent otherwise taxable Florida income from being attributed to non-Florida sources	\$314 million
• Adopt the throwback rule, which allows a state in which a corporation produces its goods to tax the profit on sales made by the corporation in states where it would not otherwise be taxed	\$32 million
• Impose a minimum payment of \$200 annually on C corporations and S corporations	\$124 million
• Eliminate the corporate income tax exemption for S corporations, whose profits flow-through to the owners but are not taxed by the state at all because Florida has no personal income tax	\$850 million
• Eliminate the exemption for limited liability companies, another form of business whose flow-through income is not taxed	\$216 million
• End the tax credit given to corporations to fund tuition for private schools	\$140 million
Subtotal	\$1.676 billion

¹ 2010 Florida Tax Handbook, <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2010.pdf>; for information about corporate tax loopholes, see “Paying More for Less,” FCFEP, <http://www.fcfeop.org/attachments/20110104--Paying%20More%20for%20Less.pdf>, and “A Closer Look at Corporate and Business Tax Proposals,” FCFEP, http://www.fcfeop.org/attachments/016_CloserLookTaxProposal.pdf

2. Reinstate the Intangibles Tax²

- Partially restore the annual intangibles tax, paid almost entirely by wealthy Floridians, to its 2005 rate of \$1 per \$1,000 of value in intangible personal property such as mutual funds and stocks. (Bank accounts and IRAs would be exempt. Middle-class and lower-income Floridians would owe no intangibles tax.) \$289 million
- Subtotal \$289 million**

3. Review and Remove Selected Sales Tax Exemptions, Credits, and Deductions^{3,4}

- No process is in place to periodically review the 244 exemptions to the state sales tax. Current exemptions total \$10.3 billion in annual sales tax revenue. A committee of the House of Representatives studied 51 of those exemptions in 2009, but no action was taken. Eliminating some previously reviewed and other selected exemptions would produce \$476 million each year. More exemptions might be suitable for repeal upon examination. \$476 million or more
 - Repeal the film tax credit subsidy that is estimated to return in economic activity only 16 cents for every \$1 given away. \$48 million
- Subtotal \$524 million or more**

² 2010 Florida Tax Handbook, <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2010.pdf>; "Unbalancing Florida's Tax System: Eliminating Taxes on Wealth Has Shifted the Burden to Other Floridians," FCFEP, <http://www.fcfe.org/attachments/20101108--Eliminating%20Taxes%20on%20Wealth.pdf>

³ 2010 Florida Tax Handbook; Florida House of Representatives Finance & Tax Council meetings, March 4-11, 2009. <http://myfloridahouse.gov/Sections/Committees/committeesdetail.aspx?Committeed=2460&sessionid=61>); see Appendix for selected sales tax exemptions which would yield \$476 million annually if removed.

⁴ Measures Affecting Revenues, 2010, Florida Legislature; "The war of words over film subsidies," South Florida Business Journal. <http://www.bizjournals.com/southflorida/blog/2010/11/boon-or-boondoggle-the-war-over-film.html#ixzz1EiRUGVta>

4. Modernize Florida’s Tax System by Taxing Some Services⁵

- \$20.8 billion in services are excluded from Florida’s sales tax. The sales tax could be extended to certain services such as securities and commodities contracts, couriers, accounting and tax preparation, drycleaning, and personal care, for example. **\$2.5 billion or more**

Subtotal \$2.5 billion or more

5. End Questionable “Economic Development Incentives”⁶

- Florida funds about a dozen programs that provide tax credits and other tax breaks to “help businesses create new jobs.” Often the subsidies go to large, profitable multistate corporations like Wal-Mart, Disney, Coca-Cola, and Carnival Cruise Lines. **\$10 million or more**

Subtotal \$10 million or more

TOTAL \$5 billion or more

For the Future: Join the National Effort to Collect Sales Taxes on Internet, Mail-Order and Other Remote Sales

These purchases are taxable by law in Florida and 45 other states. However, collecting the tax revenue is not feasible as long as payment remains voluntary. The multistate Streamlined Sales Tax Project is aimed at simplifying and modernizing state sales tax laws to eventually allow collection of taxes on remote sales throughout the United States. Florida loses at least \$2 billion each year on sales taxes rightfully owed but uncollected. In-state “bricks and mortar” businesses are placed at a disadvantage because they collect sales taxes on their transactions but remote competitors do not.

⁵ 2010 Florida Tax Handbook; see Appendix for selected services which would yield more than \$2.5 billion annually if taxed.

⁶ “Tax Breaks Shift Money to a Few Winners and Compete for Limited State Revenue,” FCFEP, <http://www.fcfe.org/attachments/20100401--Tax%20Breaks%20Shift%20Money%20to%20a%20Few%20Winners.pdf>

Appendix: Selected Sales Tax Exemptions

Florida Statute	Exempted Item	Annual Cost of Exemption
212.04(2)(a)1	Admissions to certain school and state events	\$6.2 million
212.05(1)(k)	U.S. legal coins and coins in excess of \$500	\$3.3 million
212.06(2)(d),5(c),212.0596(2)(c),(j)	Printing for out-of-state customer, when he provides the paper	\$15.3 million
212.06(3)(b)	Certain printed materials	\$.3 million
212.06(9)	Sales of religious items	\$21.2 million
212.08(4)(a)1.	Bottled (except carbonated) water	\$42.3 million
212.08(5)(i).	Certain aircraft modification services	\$36.1 million
212.08(5)(j)	Machinery & equipment used in semiconductor, defense or space technology	\$2.2 million
212.08(5)(j)	Semi-conductor clean rooms	\$.1 million
212.08(5)(j)	Defense & space machinery and equipment	\$1.9 million
212.08(7)(s)	Alcoholic beverages used by businesses for tasting	\$1.3 million
212.08(7)(w)	Subscription newspapers, newsletters & magazines delivered by mail	\$35 million
212.08(7)(gg)	Leases to or by fair associations for real or tangible personal property	\$1 million
212.08(7)(qq)	Racing dogs by breeders	\$.1 million
212.08(7)(v v)	Certain advertising services	\$13.7 million
212.08(7)(yy)	Film and printing supplies	\$5.7 million
212.20(6)(g)4.a.	Up to \$2.0 million annual subsidy for certain professional sports teams	\$21 million
212.031(1)(a)10.	Movie theater concession rent	\$1.6 million
212.031(1)(a)10.	Rents, subleases, or licenses in recreation or sports arenas, civic centers	\$.5 million
212.031(9)	High school and college teams' stadium skyboxes	\$.7 million
212.04(2)(a)6.	Tickets for certain non-profit theater, opera or ballet events	\$1.6 million
212.08(7)(f)	Sales of U.S. and State flags	\$1.7 million
212.08(7)(t)	Boats temporarily docked in Florida	\$3.8 million
212.20(6)(g)4.b.	\$2 million annual subsidy for Professional Golf Hall of Fame.	\$2 million

212.08(7)(y)	Charter fishing boats	\$11.5 million
212.02(28) & (29)	Fish breeding	\$.1 million
212.031(1)(a)1.	Charges for renting property assessed as agricultural.	\$1.4 million
212.06(5)(b)	Non-resident dealers purchasing items for resale overseas	\$2.9 million
212.06(13)	1% tax rate/month for airplanes purchased for resale but used by dealer	\$1.2 million
212.08(7)(bbb)	Railroad bed materials	\$.6 million
212.20(6)(g)4.c.	Annual subsidy for International Game Fish Association World Center	\$1.0 million
212.08(16)(a)1.	Sale on use of satellites or other space vehicles	\$62.0 million
212.08(7)(d)	Feed for poultry, livestock, including racehorses and ostriches	\$32.6 million
212.06(5)(a)	Aircraft being exported outside U.S.	\$24.1 million
212.05(1)(g)	Newspaper and magazine Inserts	\$42.0 million
212.05(1)(a)2	Sale of boats or airplanes removed from state	\$77.9 million
	TOTAL ANNUAL REVENUE FROM REMOVAL OF SELECTED SALES TAX EXEMPTIONS	\$475.9 million

(Source: 2010 Florida Tax Handbook. <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2010.pdf>)

Selected Services Excluded from the State Sales Tax

	Annual Cost
Personal care services (including beauty and barber shops)	\$87.8 million
Drycleaning and laundry services	\$66.9 million
Other personal services (pet care, photo finishing, valet parking, etc.)	\$13.1 million
Accounting, tax preparation, bookkeeping and payroll services	\$317.9 million
Travel arrangement and reservation services	\$79.3 million
Services to buildings and dwellings (includes cleaning and pest control)	\$245.9 million
Couriers	\$218.6 million
Local messengers and local delivery	\$25.8 million
Performing arts companies	\$6.9 million
Spectator sports (sports teams and clubs, racetracks, etc.)	\$15.6 million
Promoters of performing arts, sports and similar events	\$58.9 million
Agents and managers for artists, athletes, entertainers, etc.	\$12.4 million
Independent artists, writers and performers	\$41.1 million
Other amusement and recreation industries	\$29.7 million
Architect, engineering, and related services	\$468.1 million
Specialized design services	\$90.0 million
Offices of bank holding companies	\$95.4 million
Services to buildings and dwellings	\$245.9 million
Securities and commodities contracts intermediation and brokerage	\$360.7 million
Nonscheduled chartered passenger air transportation	\$36.6 million
TOTAL ANNUAL VALUE OF SELECTED SERVICES EXCLUDED FROM SALES TAX	\$2,516.6 million

(Source: 2010 Florida Tax Handbook, Pages 150-153. <http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2010.pdf>)